

# The Real Estate ANALYST

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Editor

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends. Constantly measuring and reporting the basic economic factors responsible for changes in trends and values....Current Studies....Surveys....Forecasts

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

VOLUME XV

## 22 FORECASTS FOR 1946

THE following pages outline our forecasts for 1946. This is the seventeenth year in which we have been forecasting real estate movements and the thirteenth year in which we have published detailed forecasts at the beginning of the year.

As we start 1946 one thing is certain. There has not been a year in the last generation which was started with as much accumulated demand as we have at the present time. The demand during 1946 for almost all products of American industry will exceed practically all of past years. The big problem during the year, however, will be how rapidly production can get under way with the many handicaps under which it is laboring at the present time. Probably by the end of the year we will find that during the first six months production got away to a very poor start, and even high rates of production during the last six months were unable to satisfy this accumulated backlog.

Every year starts with certain factors which are undeterminable. Last year the doubtful factor was the length of the war, and our guess that the war in Europe would end in the third quarter of the year was not too far off. This year the undeterminable factor is the speed with which our labor difficulties will be settled. Since the sit-down strikes in 1935, labor has felt that it could control both the economic and the political situation in the United States. In our opinion, the fundamental mistake of the Governor of Michigan and of the President of the United States at that time, in enabling the sit-down striker to continue in possession of company plants in violation of all rights guaranteed in the Constitution, was the beginning of the great difficulties which we are experiencing today. From that time to the present most labor issues have been decided by intimidation, compromise, or surrender at the eventual expense of the consuming public.

A second imponderable for 1946 is the degree of inflation which will materialize during the year. This will be discussed in some detail further in this report.

## GENERAL BUSINESS ACTIVITY

1 The gloomy forecasts which accompanied the Japanese surrender on business conditions during the reconversion period have not materialized. Last August Kiplinger reported that many labor leaders expected unemployment of as many as fifteen million during the reconversion period. On August 14, Sidney Hillman, National Chairman of the CIO Political Action Committee, was quoted in the press as estimating that "10,000,000 workers will be out of work within the next six to eight weeks." The War Manpower Commission in September esti-

mated that by December unemployment might reach six million, two hundred thousand. Chester Bowles, OPA Administrator, in September said, "Unemployment is expected to grow to nine million before the winter is over." The Bureau of the Census figures are now available for last year. In November there was not much more unemployment than there was in October, with a slight increase in December to two million, twenty thousand.

The dire predictions of last fall were used by government officials and labor as an excuse for demanding heavier government intervention and unemployment programs. Congress was asked not to modify rent control as there would be millions of unemployed who must be protected.

Industrial production as computed by the Federal Reserve Board in Washington is shown in the following table:

	<u>1944</u>	<u>1945</u>		<u>1944</u>	<u>1945</u>		<u>1944</u>	<u>1945</u>
January	243	234	May	236	225	September	230	170
February	244	236	June	235	220	October	232	163
March	241	235	July	230	210	November	232	171*
April	239	230	August	232	186	December	232	173*

\*Preliminary

From these figures it is evident that the low point of industrial production was reached in October 1945 at a level 63 per cent above the 1935-1939 average. The preliminary figure for December would indicate a considerable rise above the October figure to a level 70 to 75 per cent above prewar.

If we study income payments as computed by the Department of Commerce for the last two years, we find that the collapse in current buying power which was supposed to accompany the reconversion period has not occurred. The index numbers for income payments for the years 1944 and 1945 as computed by the Department of Commerce are shown in the table below. The period from 1935 to 1939 is considered as 100.

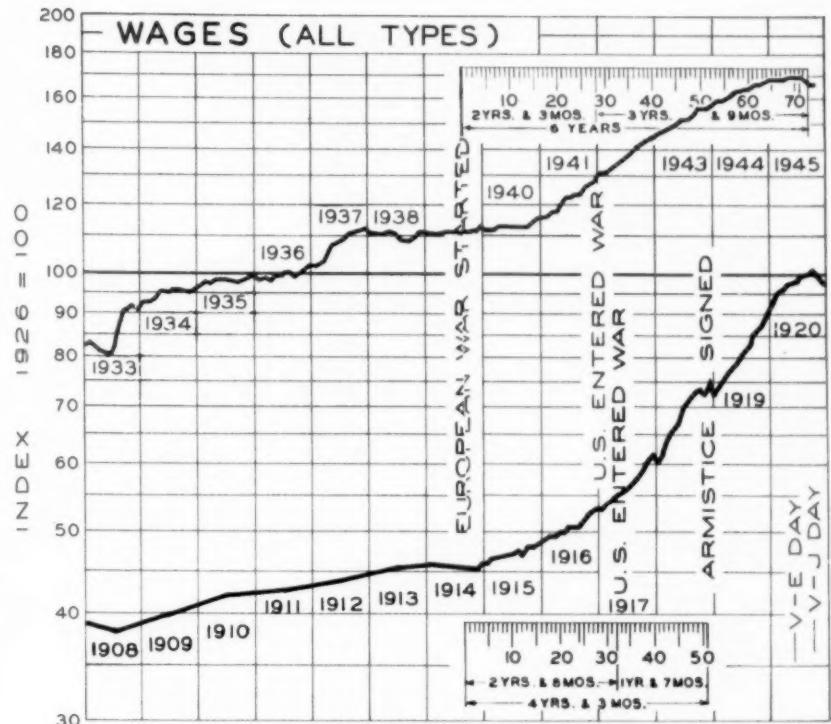
	<u>1944</u>	<u>1945</u>		<u>1944</u>	<u>1945</u>		<u>1944</u>	<u>1945</u>
January	226.4	241.9	May	231.0	241.9	September	232.7	229.0
February	231.1	245.2	June	232.6	244.6	October	235.5	231.4
March	230.2	244.1	July	232.2	243.4	November	237.5	234.9
April	229.4	242.3	August	233.7	236.0	December	239.0	

The last figure available in this series is for November and in that month income in the United States was 134.9 per cent above the prewar level and only 4.2 per cent below the all-time peak of February 1945. The tremendous amount of so-called accumulated savings is cushioning the drop which is accompanying present strikes with relatively little economic distress thus far among those who are refusing to work.

The General Motors and the steel strikes will cause unemployment to increase still further during January and February. Many industries depending on steel as raw material will find it necessary to close down and this will necessarily increase the number of unemployed. Even with these increases, however, unemployment will not nearly reach the lowest estimate of last fall.

General business activity as measured by the industrial production index

of the Federal Reserve Board will probably start to rise in February or March, assuming that by that time most of the major strikes will have been settled. Reconversion will be proceeding at a rapid rate during the balance of the year but with demand still exceeding supply. This period will continue to be a seller's market and under these conditions it is hard to see how general business conditions would slip backward materially at any time during the year. The evidence would indicate to us that 1946 for general business, in spite of strikes, will be a year of high volume.



**2** The chart above shows a comparison of wages of all types in the United States in the First and Second World War periods. On this index the take-home pay of all groups in the working population is averaged into the total in the same proportion that each group forms of the total. This chart includes the wages of school teachers, policemen, industrial workers, clerks, etc.

It will be noticed that while the line has stopped going up, there has not been any sizable drop in spite of the lessening of overtime on war contracts, nor will there be. We believe that after a sideways movement, lasting for a short time longer, wages and salaries will again start upward.

**3** The cost of living will continue to rise and the rate at which it rises will be faster during 1946 than it was during the war. It was possible during a war period to secure a greater degree of compliance with rationing and price control mechanisms than it will be in a period of peace. Black markets which developed during the war period have increased considerably since V-J Day, and so long as supplies are scarce premiums will be paid for them with or without government permission. Subsidies which Congress was willing to vote during the war period will encounter greater opposition and if the taxpayers as a whole no longer subsidize production through increased taxes which they must pay, prices will naturally rise, but we think that the rise will not be so great as the amount which would be necessary in subsidies to keep prices down.

The difficulty with all prices is primarily the fact that the inflationary policies we have followed (probably necessarily during the war) have permanently lowered the purchasing power of the dollar and we are now endeavoring to maintain a value of the dollar, which it no longer possesses, by government edict and intimidation.

There is nothing new in trying to maintain the old purchasing power of a currency which has been inflated. It has been tried many times during the past five thousand years. The precious metals in coins have been diluted by cheaper alloys and attempts made to give the lesser amount of precious metal the same purchasing power which the old coin possessed. Paper currency, printed at first in moderation and with a real backing behind it, has been augmented many times in order to meet unbalanced budgets, with an attempt to maintain the buying power it possessed before the inflation started. All of these attempts in the past have failed, even where the death penalty was prescribed for black market operations.

Before the present century, inflations which occurred were primarily inflations of coin and paper currency. It is only within the last fifty years that we have learned to inflate bank credit. This is just as effective as an inflationary measure as the actual printing of Greenbacks, but is far more dangerous as the general public does not understand the implications of the inflation of bank credit and is, therefore, not as alarmed as it would be were the currency itself increasing in quantity.

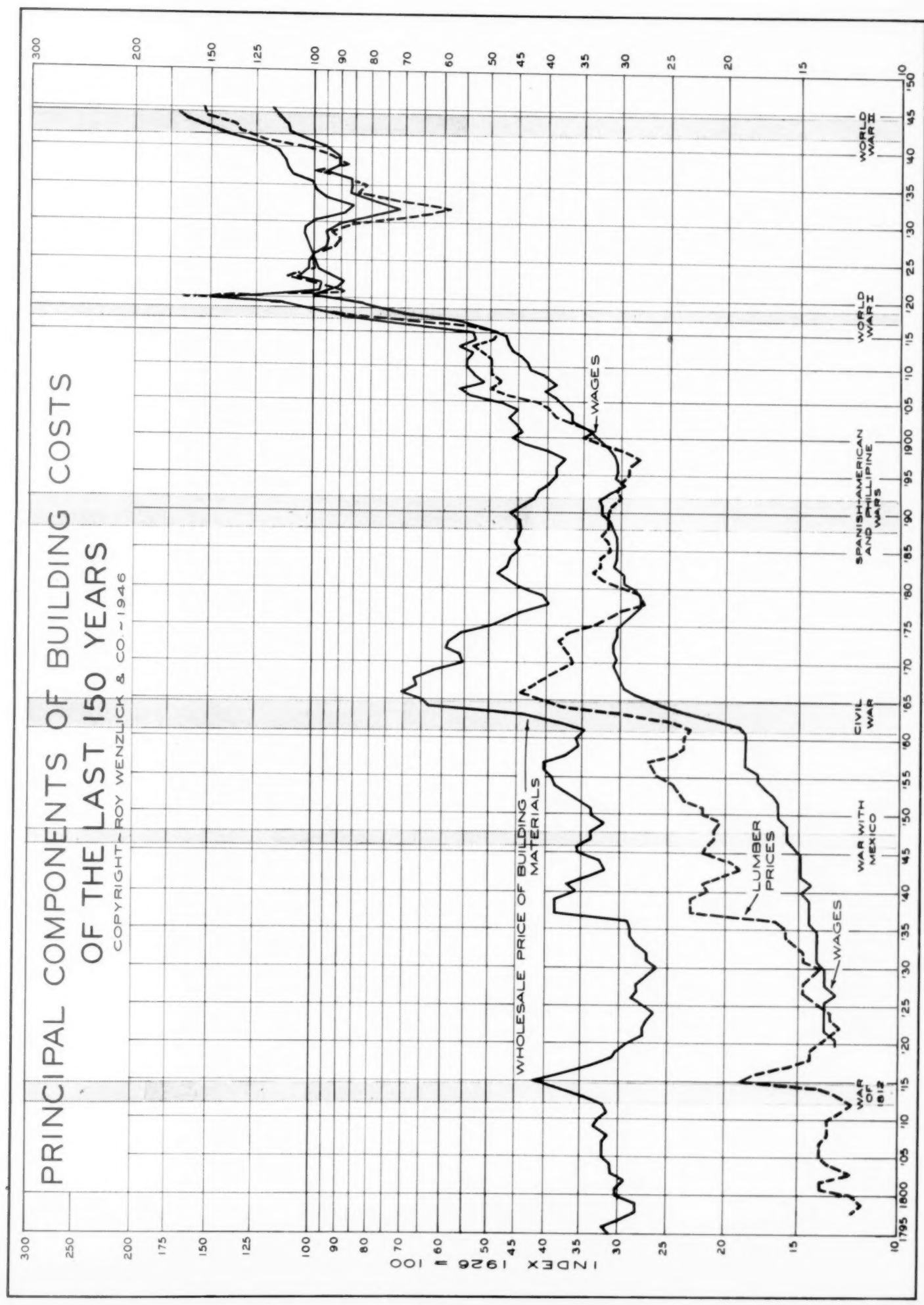
There is no way in which the dollar can be permanently "pegged" for purchases in the United States at a value greater than its real value. As the dollar sinks to its true value, prices in dollars will rise. So long as we continue to operate with unbalanced budgets, believing that the Federal government can afford to do for local communities what they cannot afford to do for themselves, inflationary pressures will continue to increase.

## URBAN REAL ESTATE RESIDENTIAL

**4** Rent control, which expires on June 30 of this year, will be renewed with no substantial changes. This is unfortunate as the best course to follow would be a gradual modification. The cost of operating real estate has increased and will increase still further, and this increased cost should be covered by an increase in ceilings of at least 15 per cent. Rent control will also be kept in force on buildings to be built, which is extremely unwise. It will limit the amount of building which can be done in a period when one of the primary needs in all American cities is for new dwelling units.

**5** The housing shortage which practically every large city is experiencing will continue unabated through 1946. There is no possibility of new building starting in sufficient volume during this year to even take the edge off the shortage. Veterans will continue to scramble for the few vacancies which result from deaths and transfers, but with the greater percentage finding it necessary to double up with relatives or to occupy rooms in rooming houses. Wilson Wyatt is a competent individual and he will make a valiant effort to expedite new building, but the deterrents to new building will be such that no person regardless of ability can bring about an increase of sufficient size in time to avoid public clamor and the accusation of having failed.

**6** The prices for which residential properties will sell in 1946 will continue upward due partially to the scarcity which will exist, but also to the pressure of large amounts of money looking for an inflation hedge. In all probability an attempt will be made to put ceilings on the prices of real estate and these attempts will fail to halt the rise. It may be possible



# BUILDING COSTS OF A STANDARD SIX ROOM FRAME RESIDENCE BUILT IN SAINT LOUIS

Costs are grouped into four classifications of material, four of labor and three of overhead. A further breakdown of these groups is given in detail below. Columns of the table are numbered, and a brief description of the items included in each is given in the paragraphs below. Paragraphs are numbered to correspond with the columns described. Building material costs are indicated by the letter **M**; corresponding **labor** items, in red by the letter **L**.

\*No labor items are shown in Column 10, **Building Hardware**, as they have already been included in Column 5, **Millwork**.

## Group A

(1) Masonry: Cement, sand, gravel, quick lime, hydrated lime, hard wall plaster, face and common brick, fire brick, flue lining.

(2) Tile Work: 4 $\frac{1}{2}$  x 4 $\frac{1}{2}$  wall tile, ceramic floor tile, cap and base.

## Group B

(3) Unfinished Lumber: Columns, beams, floor and ceiling joists, interior and exterior studs, rafters, bracing, etc.

(4) Finished Lumber: Sub-flooring, sheathing, beveled siding, finished floors, asphalt shingle roofing, roofing felt, tar paper, shutters, etc.

(5) Millwork: Windows, doors, trim, kitchen cabinet, stairs.

## Group C

(6) Heating: Boiler, insulating jackets, fittings, tools, pipes, con-

nctions, valves and radiation.

(7) Plumbing: Soil pipes and connections, stack, water pipe and connections, lead oakum and bathroom fixtures; hot water heater and tank to be furnished by others.

## Group D

(8) Sheet Metal: Galv. iron (present) gutters, downspouts, flashing.

(9) Electrical Work: Main switch, BX cable, switch boxes, receptacles, transformer, etc. No fixtures included.

(10) Nails and Hardware: Common and wire nails, bolts, damper, ash doors, finish hardware.

(11) Painting: White lead, linseed oil, turpentine.

(12) Miscellaneous: Metal and wood laths, corner bead, insulation.

## Total Material and Labor Costs

## Group E

(13) Overhead and profit of subcontractors in plastering, metal work, heating, plumbing, electrical work and tile work.

(14) General contractor's profit.

(15) Missouri sales tax (now 2% on materials), old age and unemployment tax (Federal and State), liability and employees' compensation insurance, fire and tornado insurance, completion bond.

(16) Total overhead, profit and other costs.

## TOTAL CONSTRUCTION COST

YEAR	GROUP A			GROUP B			GROUP C			GROUP D			GROUP E			TOTAL		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	Total	(13)	(14)	(15)	(16)	
	M	L	M	M	L	M	M	L	M	M	L	M	L	M	L	M	L	
1913	\$443	\$358	\$24	\$13	\$218	\$161	\$428	\$134	\$350	\$121	\$152	\$136	\$231	\$112	\$5	\$12	\$36	\$114
1914	362	306	24	13	212	161	415	134	349	121	147	136	248	110	59	12	32	49
1915	360	305	24	13	189	108	373	145	329	131	152	144	249	116	68	12	38	52
1916	366	306	24	13	224	108	438	145	363	131	203	144	309	116	101	12	55	52
1917	456	413	25	14	258	109	500	146	396	132	244	159	329	122	108	12	59	54
1918	539	421	25	15	292	118	570	158	449	143	322	158	359	124	95	14	52	54
1919	624	453	25	15	519	128	1008	170	729	154	290	160	349	130	83	15	45	57
1920	742	463	28	17	607	183	1189	243	1030	220	305	184	372	150	83	21	46	66
1921	674	501	25	18	479	188	920	250	506	225	273	192	460	156	64	22	35	59
1922	609	506	25	18	362	174	703	232	571	209	258	204	433	166	64	20	35	73
1923	633	576	25	21	410	200	793	265	551	242	267	227	430	184	70	23	38	81
1924	618	703	25	18	401	246	779	326	492	266	274	277	368	254	64	25	35	100
1925	606	684	25	18	375	251	732	335	472	302	273	255	381	207	68	29	37	92
1926	566	653	25	18	379	240	732	320	432	285	264	244	381	197	69	27	37	87
1927	565	621	25	18	354	288	715	304	358	275	251	184	395	159	67	26	37	66
1928	563	541	20	97	406	184	644	244	377	220	261	184	382	161	71	21	39	66
1929	565	541	185	97	360	184	687	244	384	220	270	184	385	151	82	21	45	66
1930	474	422	185	97	340	135	655	181	312	164	251	180	341	114	71	15	39	50
1931	411	342	155	57	313	108	594	145	254	131	226	112	322	91	58	19	32	40
1932	438	342	139	51	268	108	532	130	211	131	210	112	286	91	50	12	28	40
1933	457	342	130	51	355	105	562	145	344	131	208	112	270	91	52	12	28	40
1934	540	342	122	51	439	101	713	145	494	131	234	112	279	91	55	12	30	40
1935	508	422	111	67	399	139	638	181	523	164	236	140	292	114	43	15	24	50
1936	506	490	111	67	364	159	655	209	496	186	255	160	301	131	50	19	28	57
1937	593	512	111	67	395	186	742	245	578	221	247	160	326	141	54	20	29	57
1938	508	425	103	67	350	157	647	204	571	179	241	160	297	134	47	19	26	57
1939	513	525	103	77	360	159	660	211	513	190	239	160	277	133	49	19	27	57
Ja 1940	510	538	103	77	374	158	679	215	567	195	236	160	282	131	58	17	32	57
Ap 1940	510	538	103	77	371	158	651	215	566	195	236	160	285	131	63	17	35	57
J1 1940	510	538	103	77	371	158	651	215	566	195	236	160	285	131	63	17	35	57
O 1940	510	542	145	86	494	162	763	218	628	197	254	160	294	161	63	17	31	66
Ja 1941	515	640	145	86	493	182	808	243	645	219	242	160	266	161	62	19	28	67
Ap 1941	487	639	159	86	463	182	771	243	633	219	251	180	274	149	62	19	28	63
J1 1941	610	650	159	86	553	220	802	279	635	252	250	180	274	149	90	19	27	63
O 1941	514	678	159	86	544	226	861	303	689	274	262	200	289	187	106	29	34	72
Ja 1942	514	696	175	86	536	231	854	305	689	275	262	200	314	187	64	29	48	72
Ap 1942	520	696	175	86	547	231	876	305	715	275	290	217	317	187	64	29	50	63
J1 1942	520	696	175	86	540	233	874	307	715	276	273	200	317	195	72	29	50	66
O 1942	520	668	162	86	558	207	884	274	715	248	273	180	317	149	106	29	34	72
Ja 1943	520	668	151	86	561	207	884	274	715	248	273	180	317	149	56	29	50	65
Ap 1943	520	668	151	86	561	207	884	274	715	248	273	180	317	149	56	29	50	65
J1 1943	520	648	151	99	561	189	884	247	715	222	273	180	317	149	56	20	50	63
O 1943	528	648	151	99	662	189	1005	247	715	222	273	180	317	149	56	20	50	63
Ja 1944	528	648	175	99	662	189	1003	247	663	222	273	180	317	149	56	20	50	63
F 1944	528	648	175	99	662	189	1003	247	663	222	273	180	317	149	56	20	50	63
Mr 1944	528	648	175	99	662	189	1003	247	663	222	273	180	317	149	56	20	50	63
Ap 1944	528	648	175	99	700	189	1109	247	663	222	273	180	317	149	56	20	50	63
My 1944	528	648	175	99	700	189	1109	247	679	222	273	180	317	149	56	20	50	63
Je 1944	528	648	175	99	700	189	1109	247	679	222	273	180	317	149	56	20	50	63
J1 1944	528	648	175	99	700	189	1109	247	679	222	273	180	317	149	56	20	50	63
Ag 1944	528	762	175	99	700	189	1109	247	679	222	273	180	317	149	56	20	50	63
B 1944	528	762	175	99	700	189	1109	247	679	222	273	180	317	149	56	20	50	63
O 1944	537	762	175	99	700	189	1112	247	679	222	273	180	317	149	56	20	50	63
N 1944	537	762	175	99	700	189	1112	247	679	222	273	180	317	149	56	20	50	63
D 1944	537	763	175	99	700	189	1112</td											

to discourage the sale and resale of any particular piece either through ceilings or through a very heavy capital gains tax on short-term profits, but there are enough properties now in existence so that as one property is sold and thereby placed under ceiling, the demand will concentrate on those properties which have not yet changed hands. This will probably result in a smaller and smaller number of properties selling for higher and higher prices.

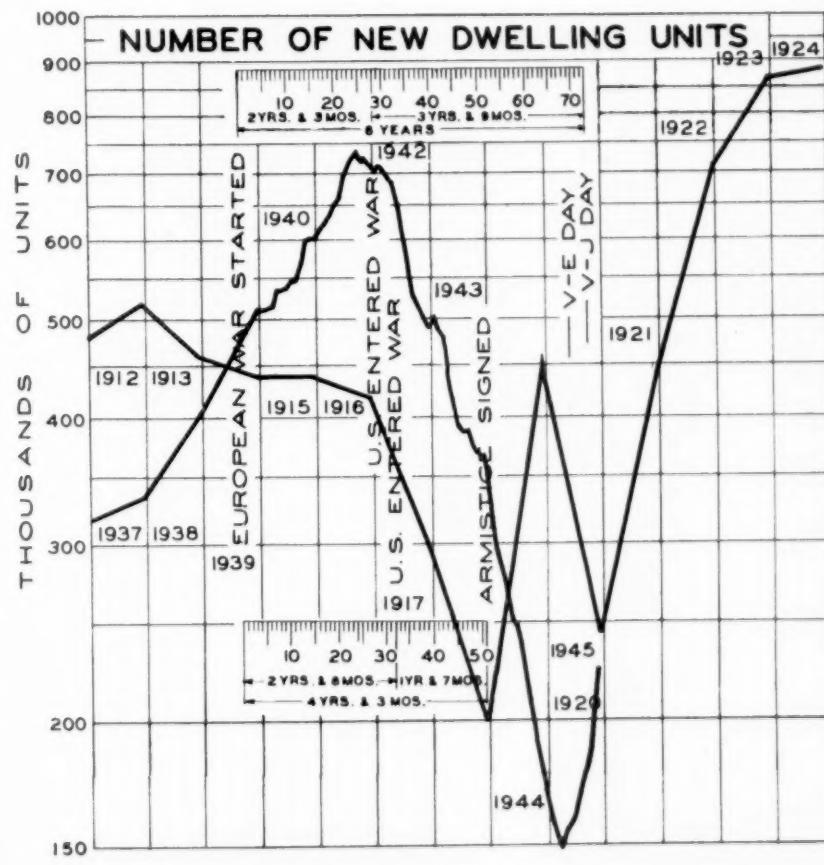
Our advice to our clients on single-family residences would be to continue to hold them during 1946. We think that this will not involve any great financial risk, as it does not seem probable that prices of well-located existing and useful buildings can drop this year. By the end of the year it will probably be more nearly possible to determine how far inflation may go than it is now. If inflation should get out of hand, the wisest policy is to continue to hold improved property without any attempt to get out at the top.

**7** Construction costs of residential buildings are now 59 per cent above the level which prevailed at the time that the war started in Europe, and 110 per cent above the depression low of 1932. During 1946 these costs will advance still further, although efficiency of labor, now at a notoriously low level, will start to increase in the latter half of the year. This will be offset, however, by increased rates per hour and by increased material costs. Lumber will continue to rise in price. See preceding chart and table.

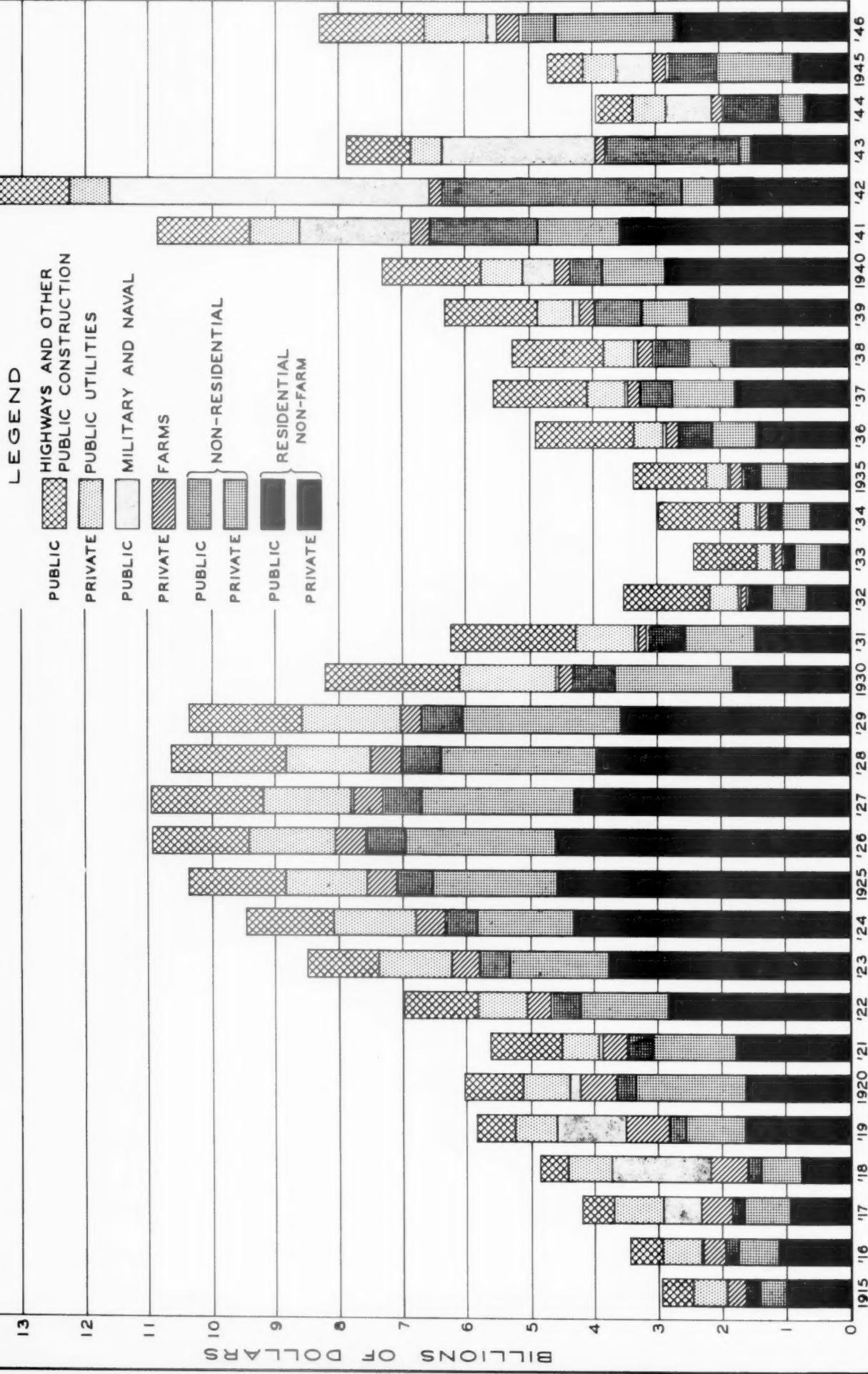
**8** Vacant land suitable for building will increase in price during 1946 due to the strong inflation pressures and to the over-abundance of dollars in the hands of prospective purchasers. Vacant land suitable for residential use will sell at its highest price four or five years from now when new building is proceeding at the most rapid rate, but we think that this land will not increase in price by so large a percentage as many other types of investments. Rapid transportation has made so much land readily accessible in the average city that none of it can take on the high scarcity values which land possessed for residential use several generations ago.

**9** During 1945, 235,000 nonfarm dwelling units were built in the United States. This is an increase of 39 per cent over the total for 1944. It compares with 351,000 in 1943, 497,000 in 1942, and 715,000 in 1941.

The chart opposite shows a comparison of the number of new dwelling



# NEW CONSTRUCTION EXPENDITURES IN THE UNITED STATES



units built in all nonfarm areas in the First and Second World War periods. The chart shows the rapid rise in new construction which followed the Armistice at the end of the First World War, then the drop during the depression of 1920 and 1921, followed by the sustained rise of the building boom of the twenties.

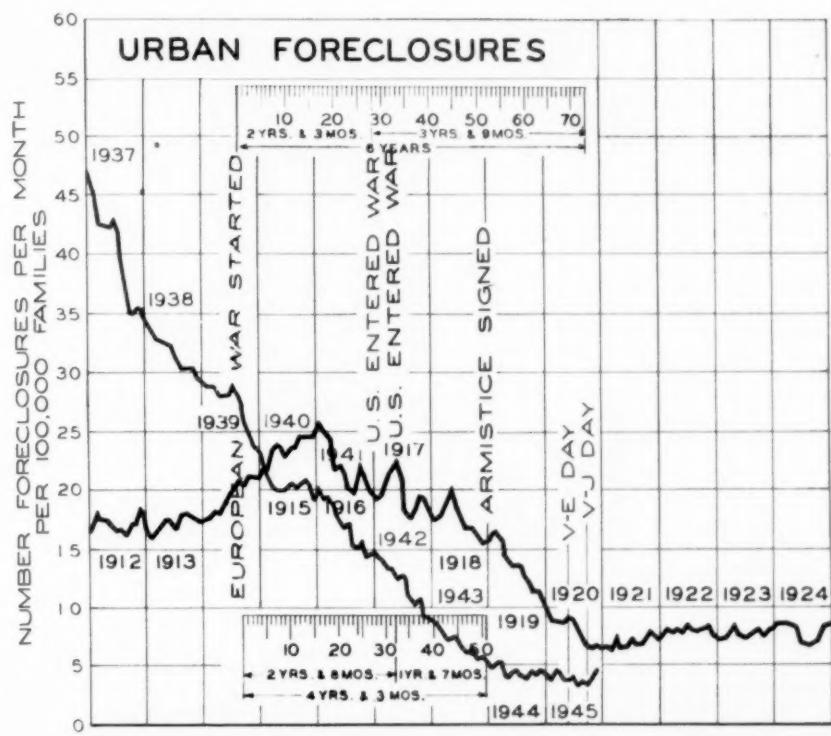
It seems probable that in 1946 we will build approximately 500,000 non-farm dwelling units. This forecast for 1946 was made originally in our September 1945 reports. Sufficient demand exists to exceed this figure by many times, but in our opinion the limiting factors will be scarcity of materials, scarcity of skilled labor, high construction costs in relationship to frozen rentals, and government attempts to channel all building into the building of units costing less than \$10,000.

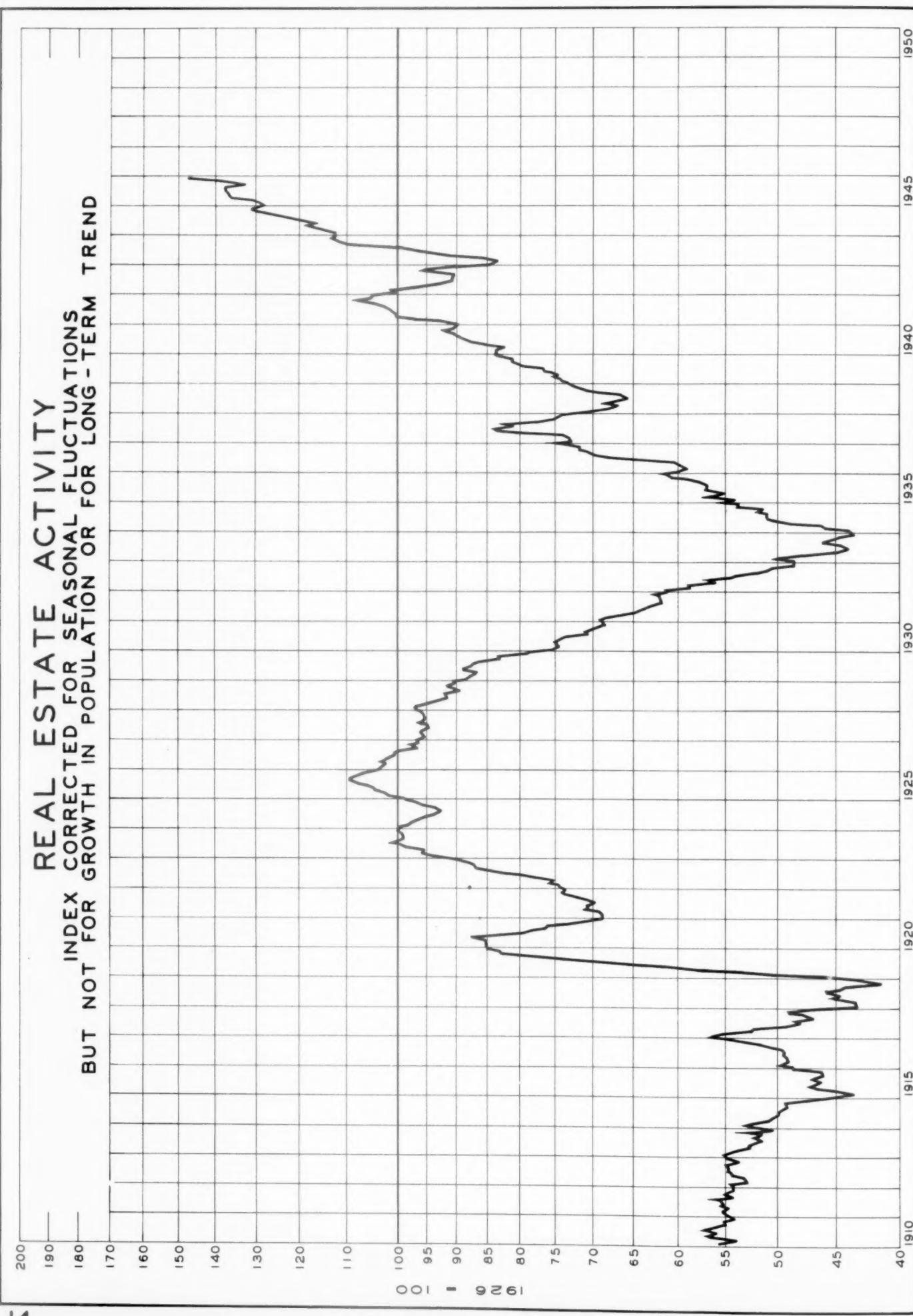
Nonresidential private building will increase markedly during 1946, but public building will decrease. Farm building in 1946 will exceed the 1945 levels by at least 50 to 75 per cent. Military and naval building will be approximately one-fourth the levels of last year. Public utilities are expected to spend almost twice as much in 1946 on new building as they spent in 1945, and highway and other construction will probably be about three times the 1945 level.

**10** Real estate activity ended 1945 at an unusually high level, probably, when adjustments are made for long-term trends, at a level higher than the peak of the twenties. There is no reason for expecting any radical drops in real estate activity during 1946. Even though attempts are made to freeze the prices at which real estate can be sold or to pass a short-term capital gains tax, real estate activity will remain high and may go higher than the points reached thus far.

The peak of the present real estate boom has not yet been reached. This is indicated by the following factors: 1. Real estate sales have as yet shown no tendency to decrease. 2. Real estate foreclosures have shown no tendency to rise. 3. New construction is increasing at a rapid rate. 4. There are practically no vacancies in residential units. 5. Rents, while still frozen, would rise by a considerable percentage in a free market, an indication of an overwhelming demand.

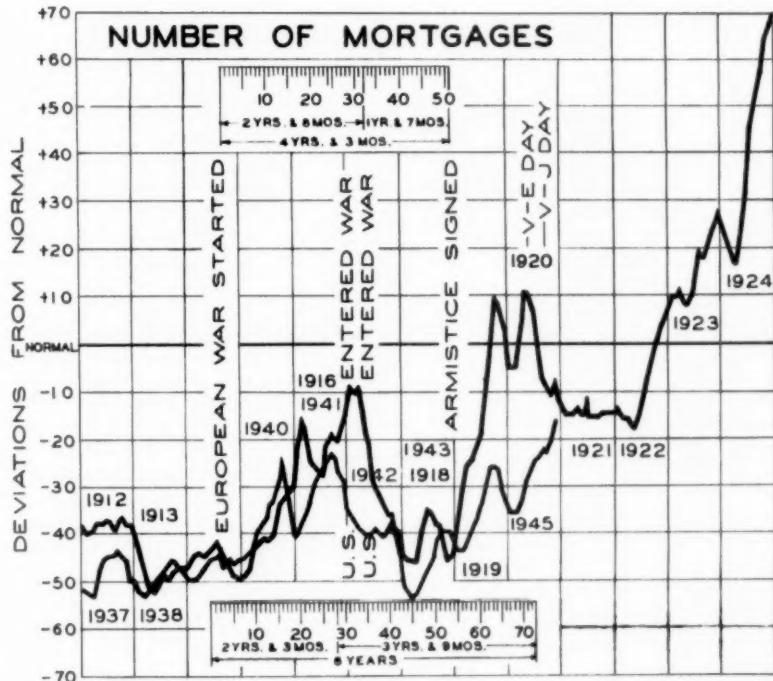
Real estate booms in the past have never ended until all of the above factors have been reversed for a period of a number of years. In the real estate boom of the twenties the above factors started a negative trend in 1926 and the boom did not end until 1929.





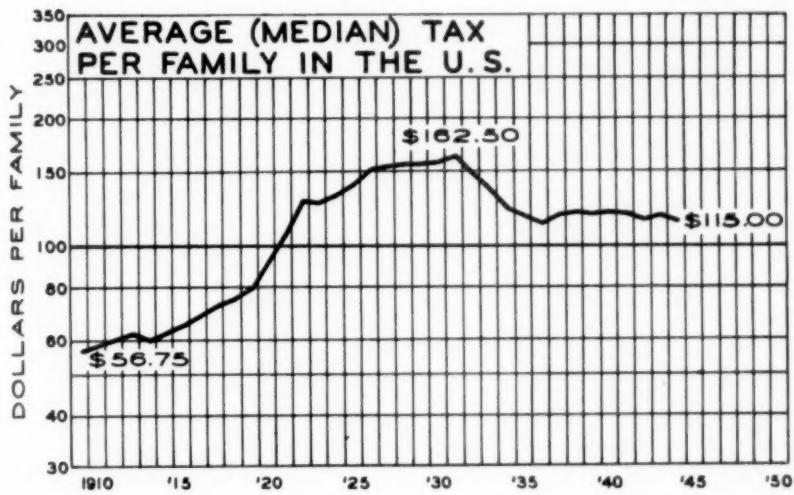
**11** The average urban foreclosure rate (see chart on page 13) will move sideways during 1946, continuing the record low levels of the past two years. So long as construction costs are increasing, vacancy is at a minimum, and real estate equities are selling readily at high prices, foreclosures will remain low.

**12** While mortgage funds will be more than adequate, mortgage loans will increase by a fairly large percentage during 1946. This will be due to the increased volume of construction which will be financed largely on a mortgage basis and to the refinancing of existing properties as they are sold, in many cases with a far larger mortgage than the property originally carried. This always occurs in a period in which the prices of improved real estate are rising.



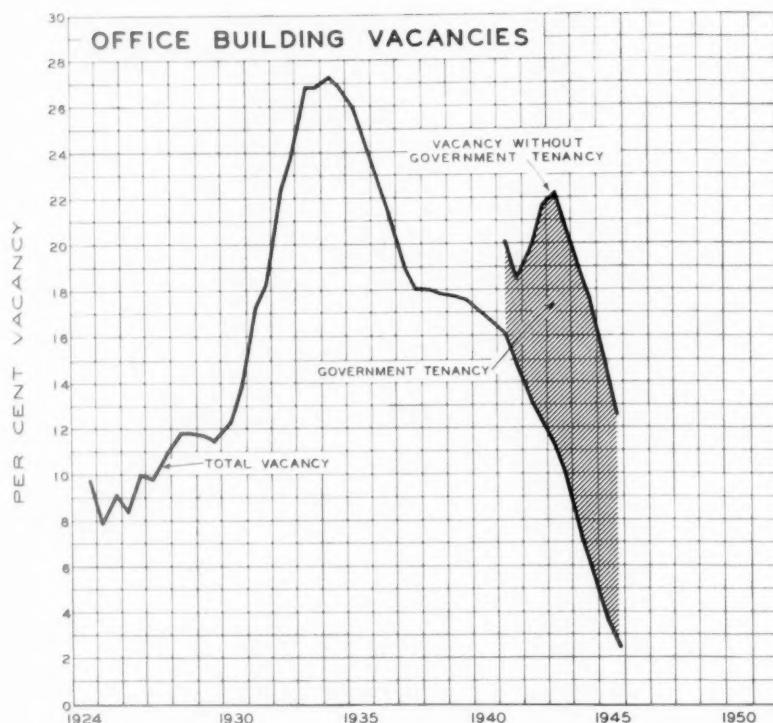
**13** Last year our forecast was that mortgage interest rates would drop slightly during 1945. This has occurred and there is some chance that there may be a very slight further drop during 1946, although the changes in either direction will not be great. Mortgage interest rates as a general thing will move sideways during 1946.

**14** Real estate taxes will move largely sideways during 1946, but with the next major change in movement upward. Due to the inflationary forces, the cost of operating city governments is rising rapidly. Municipalities depend largely for their support on the income derived from real estate taxation. It is, therefore, inevitable that assessments will be increased on properties whose selling price has increased, increasing the total real estate tax load per family in most communities. During 1946, however, the fact that residential rents have been frozen will act as a retardant on tax increases, as rent control authorities will fight desperately against anything which would tend to break rent ceilings.



## URBAN REAL ESTATE COMMERCIAL

**15** Office building vacancy is now at a new low and the shortage of office building space during 1946 will become more acute. Relatively few office buildings can be built in the United States at the present time, as rents are still too low to justify construction at current cost levels, and the Federal government is not yet contracting its space requirements fast enough to offset the increased demand on the part of industry. The government is still occupying slightly more than ten per cent of all office space in the United States. During the meantime, office building rents will rise if not prevented by commercial rent control. Commercial rent control is not desirable, however, as it would make impossible the building of sufficient additional office space to relieve the shortage. As we have often said before, the best cure for high rents is high rents, as only if rents are high will a large volume of building be done.



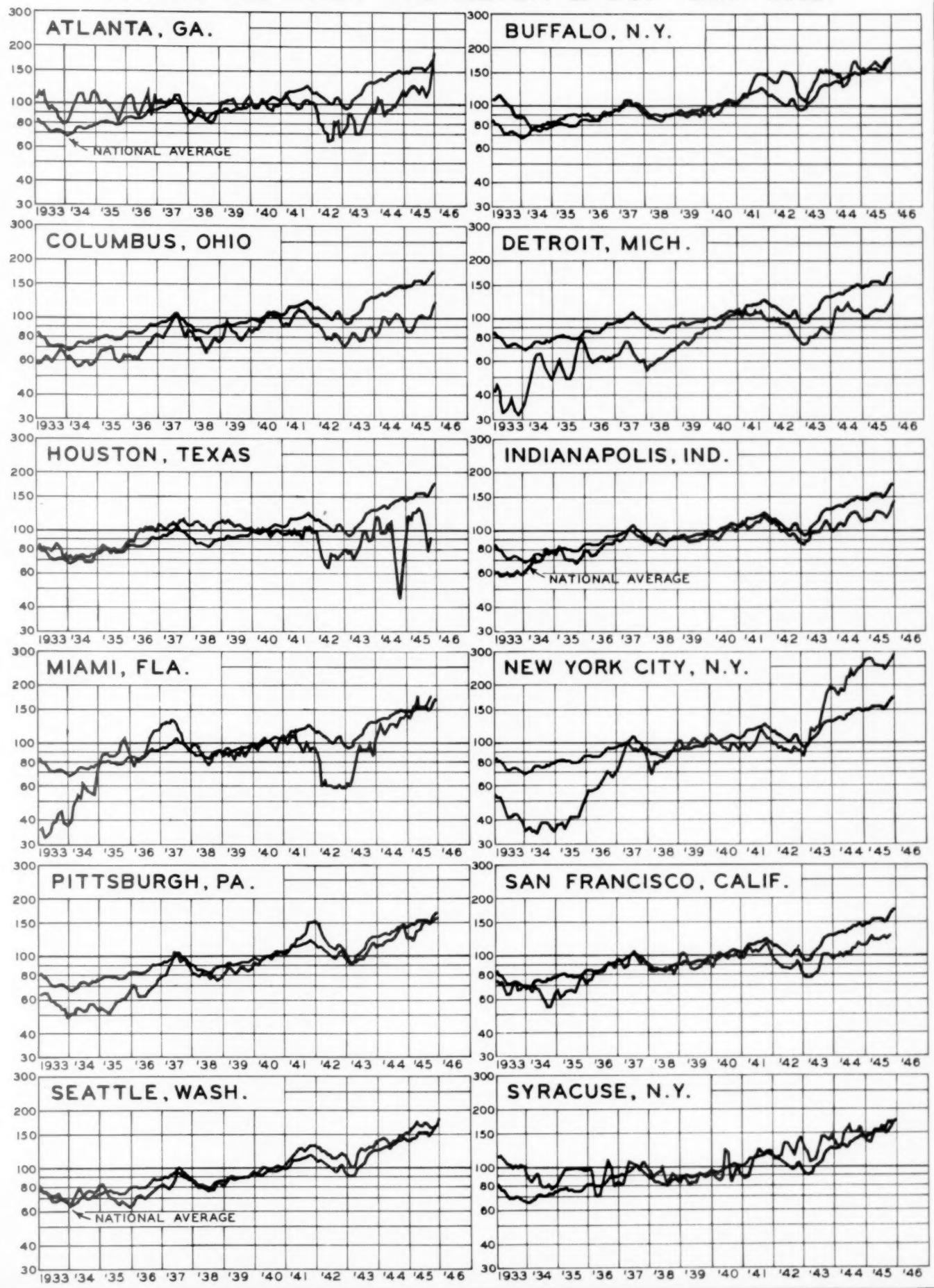
**16** The rentals of stores and shopping space will continue to creep up during 1946. The large supply of dollars seeking merchandise, with the chances that merchandise will again be available by the latter part of the year, will increase the dollar volume of business which can be done on a well-located site; and since rent on store property is generally based, at least roughly, on the dollar volume of business done, shopping rents should increase.

## INDUSTRIAL REAL ESTATE

**17** During 1946 many war plants which can be converted to industrial useability will be put back into productive activity, as the demand now existing is greater than can be satisfied with prewar plant capacity. After the accrued shortages have been made up, however, and demand again drops back to a level more nearly normal, many of the older industrial buildings which are obsolete and in which costs are high will be vacated. This is a good time to dispose of obsolete buildings. Cities in which most of the industrial buildings are of the obsolete type will eventually suffer from the competition of newer industrial areas, but during 1946 it now seems probable that the accrued demand will keep most obsolete plants in operation.

# REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

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## FARM REAL ESTATE

**18**

Farm real estate activity will continue high during 1946, with a very heavy turnover in voluntary transfers of farms. It seems doubtful, however, whether it will equal the 1944 record of 55.9 transfers per thousand of all farms. The preliminary figures for 1945 would indicate 51.5 voluntary transfers per thousand of all farms. Foreclosures and tax sales on farms will be very low during 1946, but will probably exceed the low levels of 1944 by a slight percentage. Forced sales on farms will probably be quite high in the early fifties.

**19**

The safe rise in the value of farms has occurred, although it is possible that continuing monetary inflation may bring higher dollar values for farms in the next few years than we have yet experienced. The values of farms, however, in relationship to the general price level in our opinion are about at the peak and unless inflation runs wild in the United States we believe it would be advisable to be entirely out of farm ownership within two years from the present time. When farm values start to decline again they will probably decline for more than ten years.

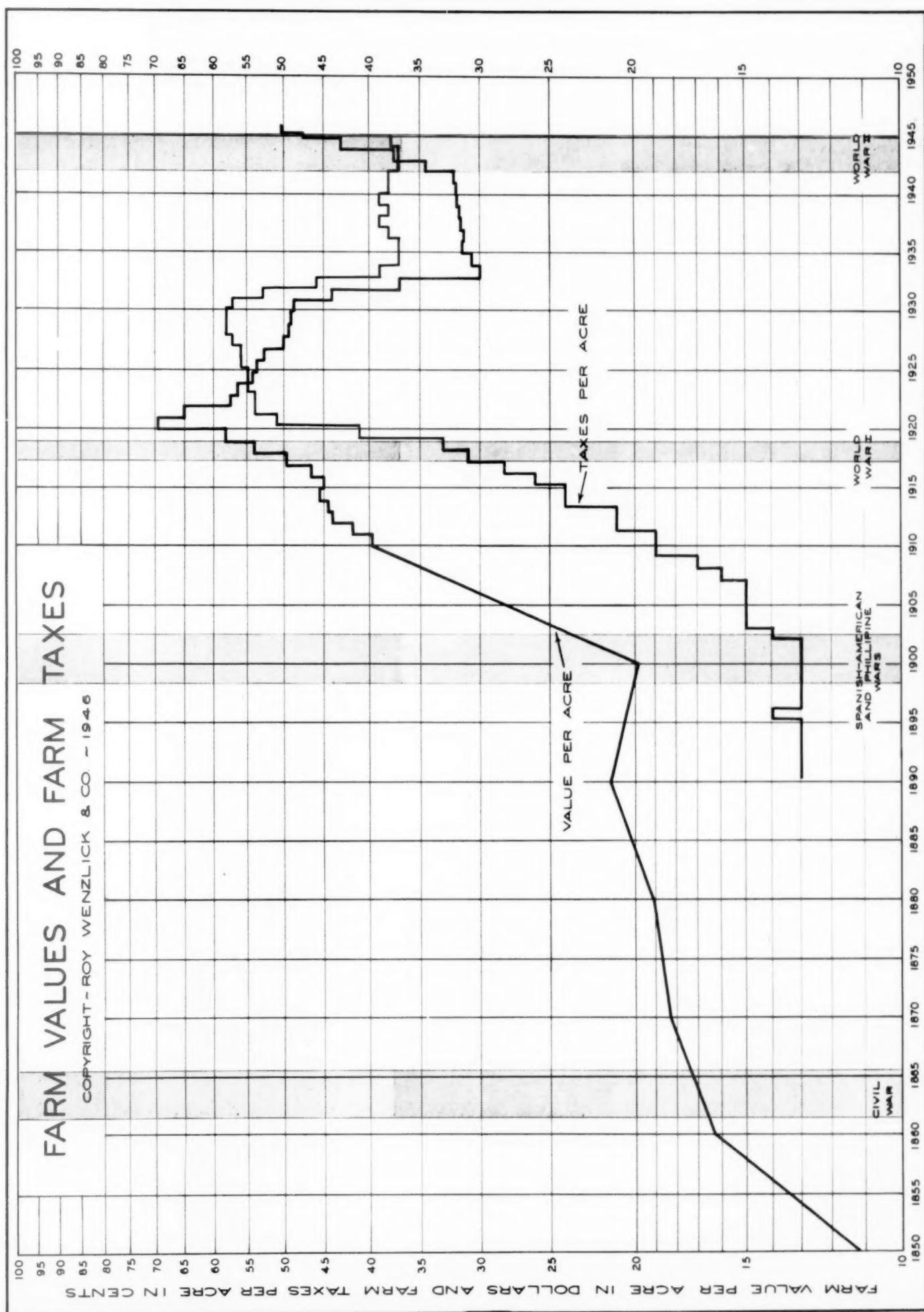
It should be remembered that after the last war farm values hit their highest point within a year and a half after the Armistice. The values of urban properties did not reach their highest point until from five to eight years after the high point was reached on farms.

Just so soon as we stop sending our farm products to other countries on loans which will not be repaid, the demand for farm products will not equal the supply, and farm values will drop.

**20**

Real estate taxes on farms will show a slight increase during 1946. From the chart on page 19 it will be noticed that real estate taxes on farms increased slightly in 1945. The increase in farm taxes will be still more noticeable during 1947 and 1948.



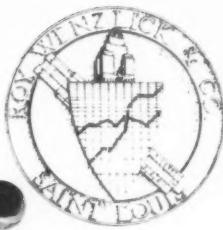


**21**

Mortgage activity on farms will remain fairly high during 1946 but the larger better informed lending institutions will become more cautious in making farm loans as the year develops. This will probably result in a volume of farm loans equal to the 1945 volume.

**22**

Mortgage interest rates will move sideways during 1946. Were it not for the greater risk which will be involved in making farm loans, mortgage interest rates on farms would tend to decrease during the year, but in our opinion the increased risk will offset the other factors, resulting in a sideways movement.



# EXECUTIVE DIGEST

## OF THE CURRENT REAL ESTATE ANALYST REPORTS

JANUARY  
1946

ROY WENZLICK & CO.

*Real Estate Economists, Appraisers and Counselors*

VOLUME XV

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Roy Wenzlick  
Editor

### REAL ESTATE ACTIVITY

The number of real estate transfers again steals from all other factors. In December the number of voluntary transfers of real estate in urban areas reached a point 74.6 per cent above the long-term assumed normal. This is the highest point reached since 1889 on our chart, but as pointed out in previous bulletins this may be partially due to the assumption that the "normal" has continued to fall during the thirties and forties at about the same rate as it fell during the preceding period.

This seemed a logical assumption as we have found in individual cities that as these cities grew older there has been a tendency for real estate sales in relation to families to grow less. This has also been shown by a comparison of matured countries in Europe with newer countries in the Western Hemisphere.

Without relationship to the long-term normal, real estate transfers in comparison with the number of families have not yet quite reached the levels set for a few months in 1923 and 1925, but one more advance of the size experienced this past month will carry the levels above any records of the twenties.

### RESIDENTIAL BUILDING

The preliminary figure on the rate at which new family dwelling units were being built in nonfarm areas in December when adjusted for seasonal influences showed a sizable increase over the preceding months. The number of new family accommodations built per year per thousand families during the months of 1946 is shown on the following table:

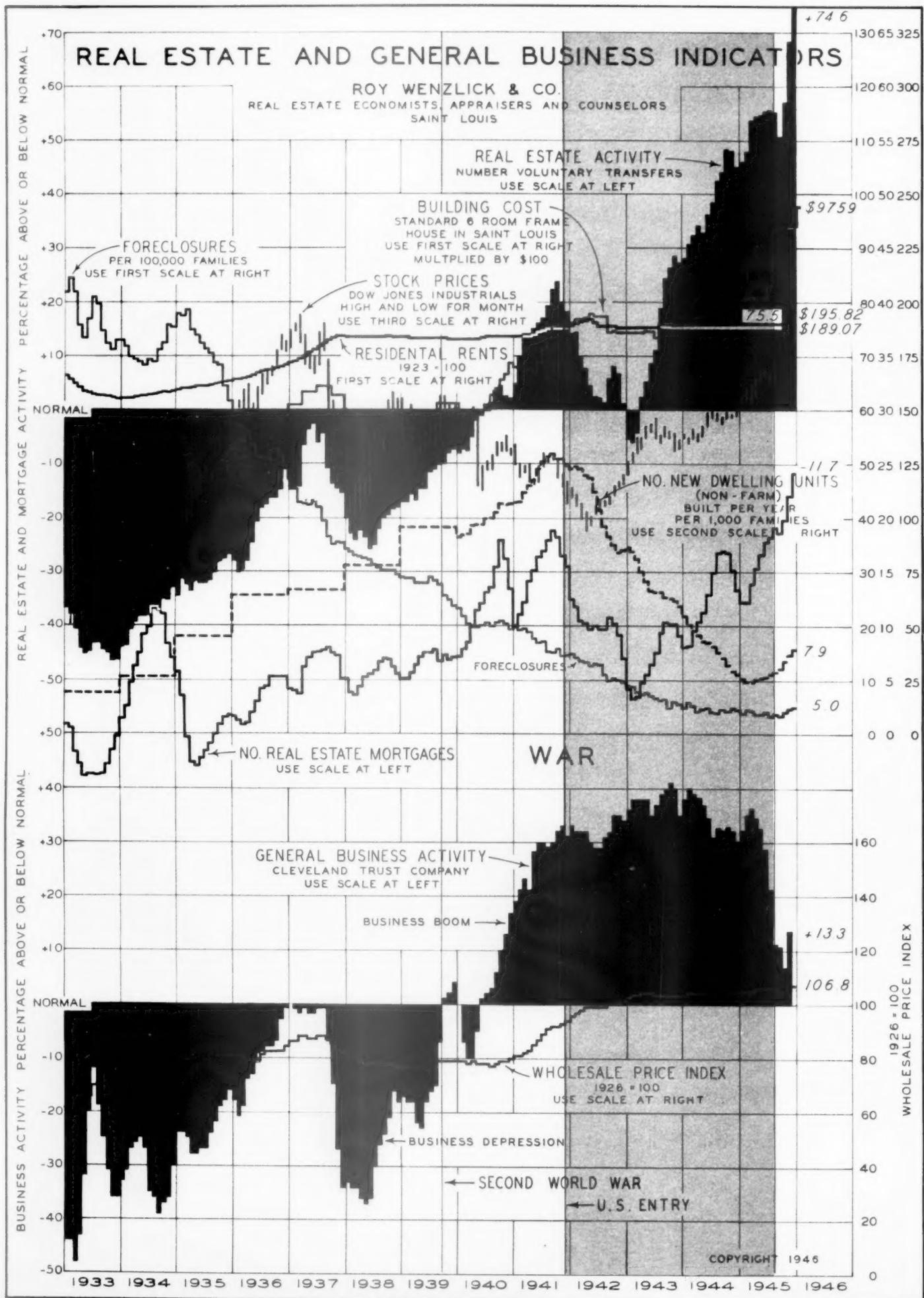
January .. 5.2	April .... 5.1	July ..... 5.6	October .. 6.8
February . 5.1	May ..... 5.2	August ... 5.8	November . 7.4
March .... 4.9	June ..... 5.3	September. 6.2	December . 7.9P

p - preliminary

### BUILDING COSTS

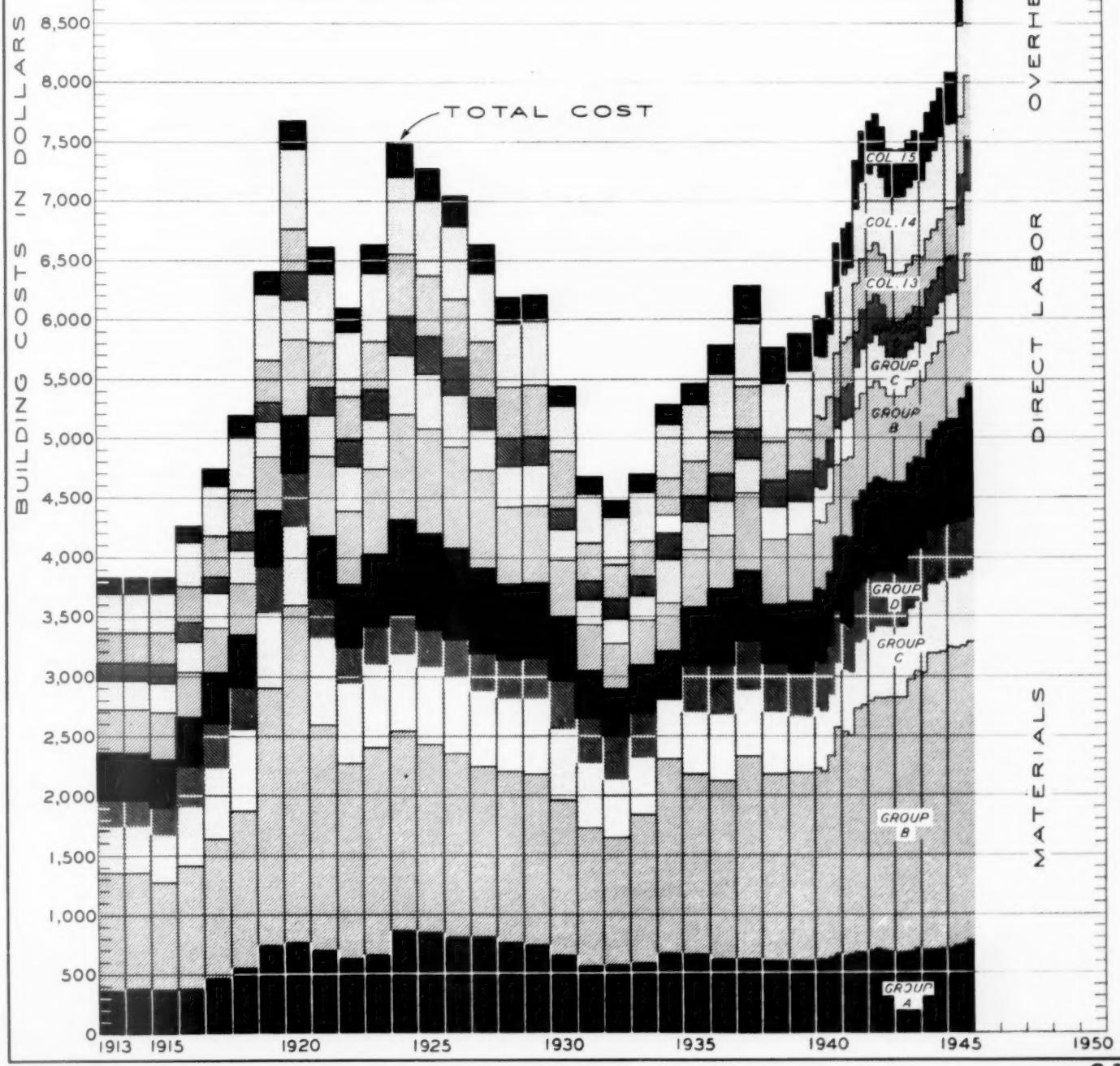
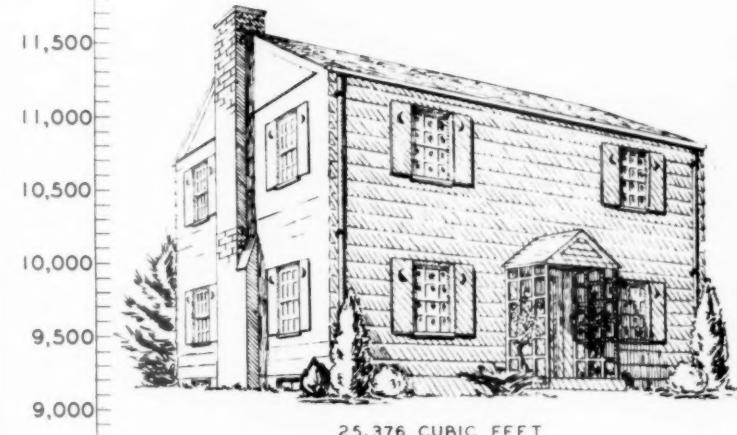
Our index of the cost of building the six-room frame house in St. Louis for January is \$9759. This is an increase of 66 per cent above the cost of \$5894 at the time the war started in Europe, or an increase of 118 per cent above the cost of \$4480 on a distress market in 1932.

There is now enough building of houses taking place that these figures have been adjusted on the basis of experience of contractors for the greater



\$13,000

## BUILDING COSTS OF A STANDARD SIX ROOM FRAME RESIDENCE BUILT IN ST. LOUIS



number of hours of labor required on the various jobs in comparison with the past.

**REAL ESTATE MORTGAGES** Mortgage lending during December was 11.7 per cent below the long-term computed normal. This is the highest level since 1930. In ten of the twelve months of 1945 mortgage lending set successively higher records.

**FORECLOSURES** The urban foreclosure rate in December was running at five per month per hundred thousand families.

The December figure is subject to revision, as all of the reporting cities had not sent in their figures at the time this report went to press. If the final figure stays at 5.0 or higher, December will be the fourth month in which the foreclosure rate has shown a small increase. The rate is still unusually low, however, as at no time from the Civil War to the last two years have foreclosures been so low as even the December figure. Labor trouble and frictional unemployment during reconversion is probably the reason for the very slight increase.

The following table shows the foreclosure rate during 1945:

January .. 3.8	April .... 3.8	July ..... 3.4	October .. 6.8
February . 4.7	May ..... 3.8	August ... 3.7	November . 4.7
March .... 4.5	June .... 4.1	September. 3.5	December . 5.0P

p - preliminary

In contrast with the rates above, the lowest foreclosure rate during the boom of the twenties was 6.3, during the boom of the early nineteen hundreds was 7.5, and during the boom of the eighties was 10.0.

**BUSINESS ACTIVITY** In spite of the greatest strikes, business activity is continuing at a relatively high level and it seems impossible to see how any major nationwide depression can develop, at least until war shortages are filled. That will take several years at least. In the average city of the United States, plan on 1946 being a very good year.

**PRICE LEVEL** Now that war controls will no longer have patriotic compliance, expect prices to rise faster than they did during the war. The very attempt of the government to hold ceilings is increasing shortages and, therefore, contributing to a higher level than would develop in 1947 were ceilings to be removed. Rent ceilings will hold. They should be increased a minimum of 15 per cent, but they won't.

**STOCK MARKET** The combined effect of putting the market on an all-cash basis and the beginning of the steel strike was only able to give the market a very short and insignificant setback. This indicates its inherent strength and we still think that the bull market will continue with only minor interruptions.



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1946

As I see

## INFLATION

**I**NFLATION is not an increase in prices. Quite frequently terms are confused in such a way that people speak of an inflation in stock market prices, an inflation of real estate, an inflation of agricultural products, or an inflation of almost any commodity. The increases in price are a result, not a cause. Inflation is really the multiplication of the currency and credit of a country in such a way that too much money is available for the amount of money work that must be done. This always results in a tremendous pressure against existing prices as each unit of money or credit no longer has the purchasing power which it formerly possessed. Inflation is not new. From the earliest times when money first came into general use we hear of many inflations. At a time when money consisted solely of metal coins, these coins gradually lost value by clipping, that is, the coins at that time were not milled and it was possible to clip small amounts of metal around the edges. A clipped coin, of course, was not worth as much as it did not contain as much precious metal as an unclipped coin. That was the first method of reducing the value of money with a resulting increase in price for the clipped currency. It was only a short time after this, however, when monarchs in need of financing found that the old coins could be melted out and that new coins could be struck, with a greater percentage of alloy and a smaller percentage of precious metal. This was not at first discernible to the public, but the fact that the monarch now was able to produce more coins with the same amount of precious metal meant that the amount of coinage in circulation increased and as the amount of coinage increased the value of the coins decreased. Also contributing to the decline in the value of these metal coins with too much alloy in them was the fact that foreign countries and foreign merchants would no longer accept them at their face value.

In more recent times, after paper currency came into circulation, it became quite easy to inflate the currency. All that was necessary was to print a larger number of notes than had been originally contemplated and a larger number than was actually needed on the basis of the amount of money work which had to be done in the community. Many wars were financed by printing paper currency as it always seemed the easy way to finance a war. This was true of the French Revolution; it was also true of the American Revolution, and the final result of the multiplication of the Continental currency has remained in our language with the expression "not worth a Continental."

The Greenback Inflation of the Civil War is another example where a war was financed by printing currency, but fortunately the Northern States limited the amount of the number of greenbacks that they published and eventually got back to a basis where these greenbacks were redeemable in gold. During the

period, however, in which they were not redeemable and in which they were being printed rapidly, prices soared.

Since 1900 we have found a new method of inflating the currency or rather, let us say, the money people used. As checking accounts gradually came into use, and most of the money which people spent was no longer either coin or actual currency, it became possible to inflate the "money" by inflating the amount of bank credit. This occurred in the period of the first World War and was largely responsible for the credit inflation of the twenties. The rapid rise of prices from 1915 to 1920 was not due entirely to scarcity. It was due primarily to the fact that the government was buying large quantities of war materials and paying for these materials with "money" created out of midair.

In the second World War we have also financed a large part of the war by inflating the credit again. Every time that a bond is sold to a commercial bank it has had the effect of increasing the amount of usable money in the United States in exactly the same fashion as if we had printed greenbacks. In some ways I think that the printing of greenbacks would be less serious than the inflation of credit as we have carried it on. When a country prints greenbacks, the general population becomes greatly alarmed at the inflation process. When a country inflates credit by selling bonds to banks, relatively few people realize that anything is being done to the quality of money, and they blame the high prices entirely on scarcity, on racketeering, and on almost everything except the real cause.

In every one of these inflations in the past, regardless of whether it was an inflation of coin by mixing more alloy with a precious metal, or an overprinting of paper money, or an inflation caused by the increase of bank credit, governments have always tried by decree to maintain for the diluted currency the same purchasing power which the currency or credit had before the inflation took place. Very elaborate price control mechanisms were set up over a hundred years ago in order to try to prevent currency from sinking to its natural value, but in every case in the past these price control efforts have failed and money has eventually sunk to the point which the quantity of it and its lack of quality justified. Possibly one of the best examples of the attempt to maintain for a currency a value which it no longer possessed was the case of the assignats in France. After the French Revolution it became necessary for the French government to raise a great amount of money and they had no source from which this money could be raised. Their international credit was not good and they could not obtain foreign loans. They finally decided to solve their problem by confiscating the lands of the Church, and then on the basis of the value of these lands they issued a paper currency called the assignat. Theoretically the assignat was supposed to have the same value as a bond or a mortgage because the value of the real estate taken over by the government was supposed to be the backing for the currency. This sounded very plausible, but the same difficulty developed which always develops in printing money. Even if the assignats had not been printed in excess, augmenting the currency suddenly would have an effect on prices as it increased the amount of money in relationship to the amount of money work to be done. In the inflation which followed, the French government went to very great lengths in trying to prevent black market operations. Toward the end they even decreed the death penalty for black marketeers, but in spite of all these precautions the currency lost its entire value within a period of five years.

Let me hasten to say that I do not think that this will occur in the

United States. I think that the inflation will be moderate in comparison with many of these inflations in Europe. On the other hand, I think it is valueless for the Office of Price Administration now to attempt to decree a higher value for our money than it actually possesses, and frankly, I think that is what they are trying to do. Many of the ceilings they are trying to maintain cannot be maintained if we are going to secure sufficient production to relieve the shortage. Many OPA ceilings have been placed on commodities at a level so low that only the most efficient producer is able to produce without a loss. The present demand is so great, however, that the efficient producers in the field cannot produce nearly enough to take care of this demand. As we are unable to secure sufficient production at the present price ceilings, the pressure on the ceilings becomes greater and black markets grow more rapidly.

How will this affect real estate? In the first place, real estate is increasing in value primarily because the dollar is no longer worth what it used to be worth for any purpose. The stocks on the stock market are advancing for the same reason that the price on most commodities has risen. Deficit financing during the war by the Federal government is responsible for this drop in the purchasing power of money and is, therefore, responsible for at least a part of the rise in the value of real estate. I think this deficit financing was more or less inevitable and, therefore, no one is particularly to blame. However, since the currency and credit has been inflated to the point where it no longer is worth what it formerly was, it is valueless to try to decree a higher purchasing power for money than it actually possesses. An attempt to put price ceilings on the prices of real estate is an attempt following out all of the precedents of the past on the part of government to maintain by law a purchasing power of money for real estate which is out of all proportion to the actual value of money itself. Also true to precedent, the monetary situation is rarely blamed by the people in Washington for the rise in prices.

While the lower value of money is the basic reason for the present advance in the prices of real estate and of other commodities, the other reason would be the factor of scarcity. We have an insufficient number of homes to go around, probably being actually short at the present time about three million, but this shortage is increasing rapidly and probably by a year from now will be four or five million. As more men come back from service and attempt to set up housing units, the shortage will be more acute. Will a ceiling on real estate prices help ease the shortage of homes? It seems to me that it will not, but that it will intensify the shortage and make it more difficult to relieve it. This the government seems either unable or unwilling to realize. In a recent issue of Domestic Commerce, published by the United States Department of Commerce, there was an article commenting on increases in the prices of various commodities. This article maintained, however, that rent is a special case in that the cost here is a payment for the use of an existing asset rather than for current production. The statement is made that rent control is not only relatively easy to enforce, but that it could be applied freely without fear that the current production would thereby be limited. This is not the case. I will agree that rent is a payment for an existing asset, but, on the other hand, the augmenting of the supply depends primarily on the return from existing dwelling units. Unless rents and values are high enough in relationship to current construction costs, relatively little new building will take place, and unless a large volume of building takes place the shortage will continue indefinitely. The impossibility of building units for rent on today's market is quite evident from the fact that the cost of building our standard six-room frame house has increased by 66 per cent since